© OECD 2014

Chapter 1

Overview of investment policy context and challenges in Mauritius

Mauritius has experienced strong growth and development over many years, but more recently exports have lost in competitiveness, terms of trade have declined, and productivity and private investment (especially domestic) have barely increased for over a decade. Such problems have structural causes, and dedicated efforts aimed at enhancing the position of Mauritian industries in international supply chains are required. In this regard, this chapter investigates the existent framework for investment promotion and for protection of investor rights, and explores investment and growth trends over the last two decades. Despite a positive picture overall, Mauritius must contend with a slight decline in private investment, stagnation of gross fixed capital formation, and insufficient prioritisation of investment inflows into strategic economic sectors. Key policy challenges faced by Mauritius in attracting investment across all economic sectors are identified, followed by associated policy options in the areas of investment policy, investment promotion, infrastructure development and competition policy, trade policy, and human resource development.

1.1. Growth and competitiveness context

Post-independence economic development and diversification strategies

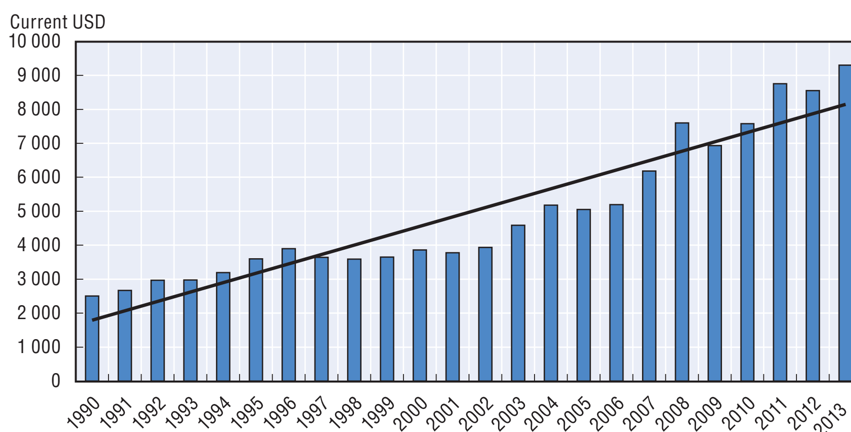
At independence in 1968, the **sugar industry** was responsible for one third of Mauritian GDP, employed more than 30% of the workforce, and generated 90% of export earnings. Trade preferences – under the Lomé Convention and then under the Cotonou Agreement, as well as the Africa Growth and Opportunity Act (AGOA) – have allowed government to continue nurturing the cane industry despite the emergence of other key export sectors since. Indeed, the Sugar Protocol of the Lomé Convention had granted Mauritius an export quota of about 500 000 tonnes per year since 1975 (the largest share of all nineteen Convention signatories); moreover Mauritius secured a guaranteed price for these exports, which in 1991 was for instance nearly twice the world market price. Sugarcane has been used for production not only of sugar but also of bagasse, a sugarcane by-product which provided 30% of the island's energy in 1996 and roughly 22% today. The commodity boom in the early 1970s also provided Mauritius with high revenues on its sugar exports, and supplied the start-up capital needed for growth of the manufacturing sector. In 2005, sugarcane was still harvested on 68 351 hectares, representing about 70% of the arable land in Mauritius. By 2013, this had dropped to 53 871 hectares harvested (yielding 3 815 782 tonnes of cane and 404 713 tonnes of sugar produced for the year), distantly followed by food crops (covering 8 189 hectares in 2013, including backyard production) and tea (672 hectares under plantation).

As pre-independence attempts to diversify the economy through strengthening the domestic market met with limited success (import-substitution industrialisation was particularly constrained by the limited market size and resulted in slow growth as well as unemployment rates of 15-20% throughout the 1960s), government turned to **promoting export industries** since independence. This strategic juncture is marked by the **Export Processing Zone (EPZ) Act** of 1970. The EPZ scheme, discontinued since 2006, enabled textile and clothing to become the second pillar of the economy. Trade preferences that continued since further supported robust growth of the sector. Throughout the 1980s and 1990s, this advantageous situation was reinforced by the Multi-Fibre Agreement (MFA), which limited the ability of other actors in the textile industry – especially India and China – to compete with Mauritian production in its main export markets. These favourable trade conditions also attracted foreign investments, particularly

from Hong Kong which sought to tap into Mauritius's privileged access to the EU market. The overall business environment – including the powers of investment and business-related institutions, the state of existing infrastructure, and human resource development – was improved to support increased investment in manufacturing.

During this period, unemployment was brought down from 20% to less than 4% while the economy showed impressive growth in both absolute and per capita terms: the Mauritian economy grew by 4.5% per annum on average over the four decades since its independence, and per capita income was multiplied over fifteen-fold (Figure 1.1), reaching USD 9 302 at market prices by the first quarter of 2013). Nonetheless, government remained aware of the risk of excessive reliance on trade preferences for sugar and textiles, its two major exports, and of the need to invest in new growth areas. The **Mauritius Freeport** was in line with the government's aim to broaden the island's economic horizon.

Figure 1.1. **GDP per capita (at current prices), 1990-2013 (2013 estimated)**



Source: World DataBank, 2012 (figures from 2012 and 2013 obtained from *Statistics Mauritius*, 2013 figure estimated as of Q1-2013).

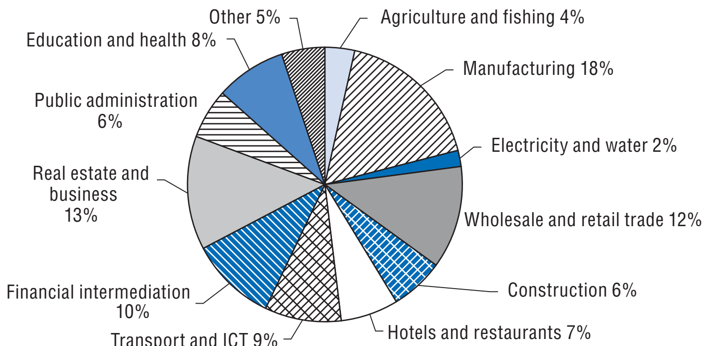
Established in 1992, Mauritius Freeport is a commercial free zone which offers world-class facilities and logistics services for dry warehousing, cold rooms, processing activities, office space, and the like. Ranked by among the "Top 50 Best Free Zones" in the Global Free Zones of the future 2012/13 *Report of FDI Magazine*, and recognised as the oldest free-port of the region, the Mauritius Freeport has played a pivotal role in positioning the country as a leading regional trading, logistics and distribution hub. To further strengthen its competitive position as a regional platform, the Mauritius Freeport is now open for companies to carry out manufacturing activities with the main objective to export to Africa.

As a member state of the COMESA and SADC regional blocs, Mauritius moreover offers preferential access duty and quota free access for goods originating from regional markets. This represents a combined GDP of USD 842 billion with over 655 million consumers, an import potential of USD 243 billion and an export potential of USD 278 billion.

Under its diversification strategy, Mauritius has also developed **tourism and the financial sector as principal pillars of the economy**. Government policies have targeted the high-end of the tourism industry and service of Air Mauritius was upgraded in the aim of improving the island's connectivity. The contribution of tourism to GDP has grown substantially, and the sector has become a major foreign exchange earner and an important source of employment. Tourism has also had large multiplier effects on the construction and real-estate sectors. Meanwhile, in 1992, Mauritius also entered the international financial market as a **regional Global Business financial centre**, with the establishment of the **Mauritian Offshore Business Activities Authority** (MOBAA, replaced since 2001 by the **Financial Services Commission** under the Financial Services Development Act). The Global Business financial sector grew at an average of over 8% per annum throughout the 1990s, contributing about 10% to GDP by 2000. Concluding a number of strategic Double Taxation Avoidance Agreements (DTAAs) and corporate tax system simplification have contributed to increasing the attractiveness of Mauritius as a low-tax gateway for channelling investments to third destinations, including India and South Africa (see outward FDI data in Section 1.3).

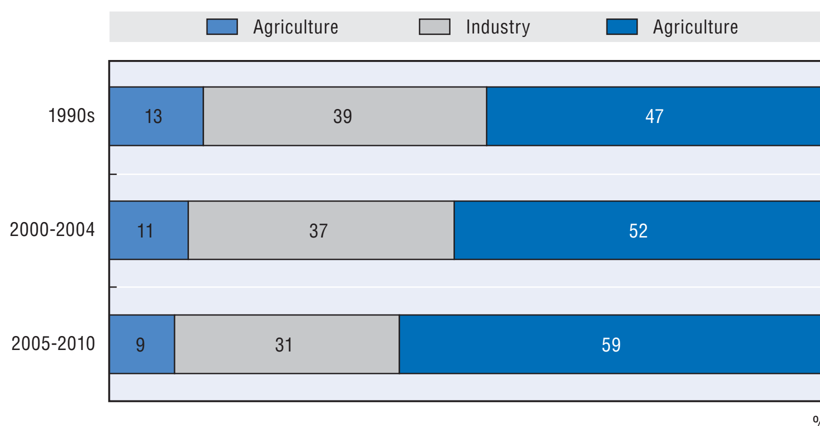
Figures 1.2 and 1.3 illustrate the resulting **modification in the structural composition of the Mauritian economy**, in terms both of employment by sector (where services have considerably increased *vis-à-vis* both agriculture and industry since the 1990s), and of industry growth rates. Mauritius is now far from a mono-crop economy reliant on sugar: while the share of sugar in total

Figure 1.2. **GDP composition, 2012**



Source: Statistics Mauritius, 2012.

Figure 1.3. **Employment by sector (% of total employment)**



Source: *Statistics Mauritius*, "Labour force, Employment and Unemployment", 2012.

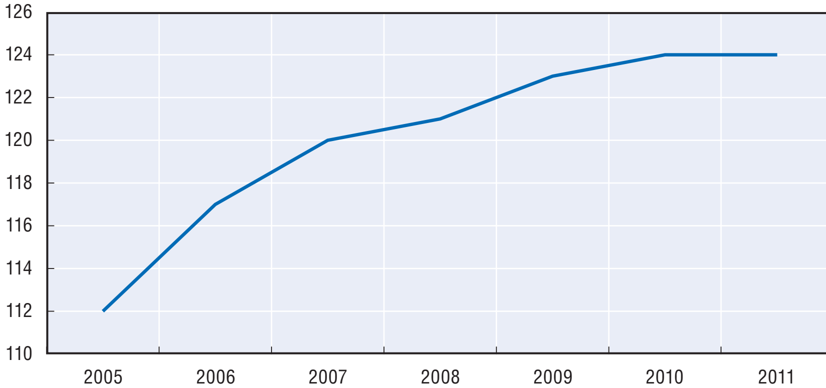
production stood at about 25% of GDP in the 1970s, it had already fallen to 3.5% by 2003, and the sector experienced negative growth of 7% in 2012. Mauritius is today an upper-middle income country with an economy based on textile manufacturing, financial services, fisheries, tourism and ICT (Figure 1.2).

Erosion of competitiveness in traditional export sectors

Despite foresighted efforts to diversify its exports, **Mauritius' economy has however suffered since the turn of the millennium**. Its labour cost advantages have been rapidly eroded – especially with the entry of China, India and other competitor countries on the EU and US textile markets as the MFA and its quotas were dismantled. Due in particular to the emergence of other economies as major exporters, the rank of Mauritius in world merchandise exports deteriorated by 12 positions (from 112th to 124th of 181 economies) over 2005-11, according to the WTO (Figure 1.4). A one-point recovery (to 125th position) was nonetheless recorded in 2012. Nevertheless, the share of Mauritian exports marketed in high-income economies has decreased from a high of 95.5% in 1990 to 79.2% in 2011 (Figure 1.5).

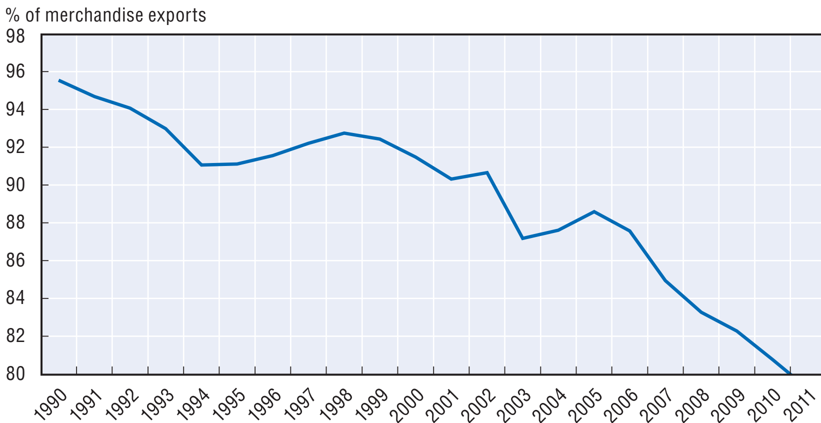
Replacement of the Lomé Convention with the Cotonou Agreement and more recently the interim Economic Partnership Agreement (EPA) with the EU has therefore not sufficed to maintain Mauritius's market shares in these high-income markets, largely due to a lack of competitiveness *vis-à-vis* Asian exports. Indeed productivity and value-addition have not recorded substantial improvements in Mauritius – as Figure 1.6 indicates, **industry value-added as a per cent of GDP** has almost continuously declined since 1990. In 2011, the majority of value-addition was derived from the services sector (where value-added reached 67% of GDP), distantly followed by manufacturing (19%),

Figure 1.4. **Mauritius rank in world trade, merchandise exports, 2005-11**



Source: *WTO Trade Profiles*, 2006, 2007, 2008, 2009, 2010, 2011 and 2012.

Figure 1.5. **Share of total merchandise exports marketed to high-income economies, 1990-2011**

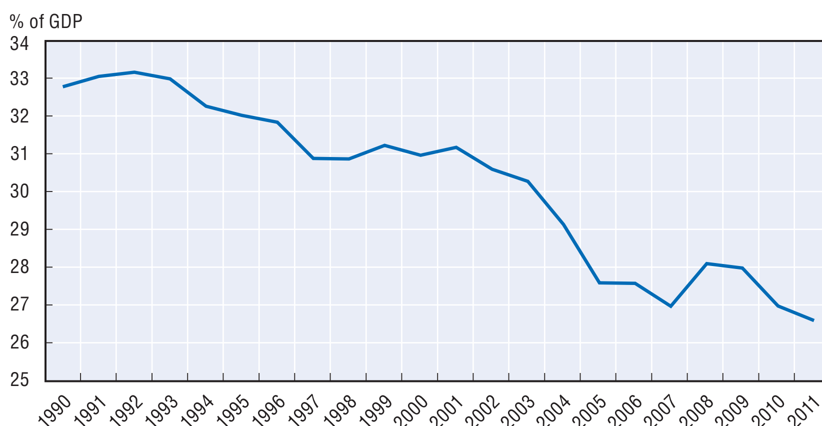


Source: *World DataBank*, 2012.

non-manufacturing industry (10%), and agriculture (4% of GDP). In the manufacturing sector, labour productivity thus increased by only about 60% over 2000-12 while employee compensation more than doubled.

Unsurprisingly, this decline in export competitiveness is reflected in a deterioration of the **external balance** over the past two decades: from a record surplus of 6% of GDP in 2001, the current-account has been in increasing deficit between 2004 and 2011 (when the deficit reached 12.6% of GDP). This contrasts with the majority of African countries, which have known balance of payments surpluses since 2004-05.

Figure 1.6. **Industry value-added as % of GDP, 1990-2011**



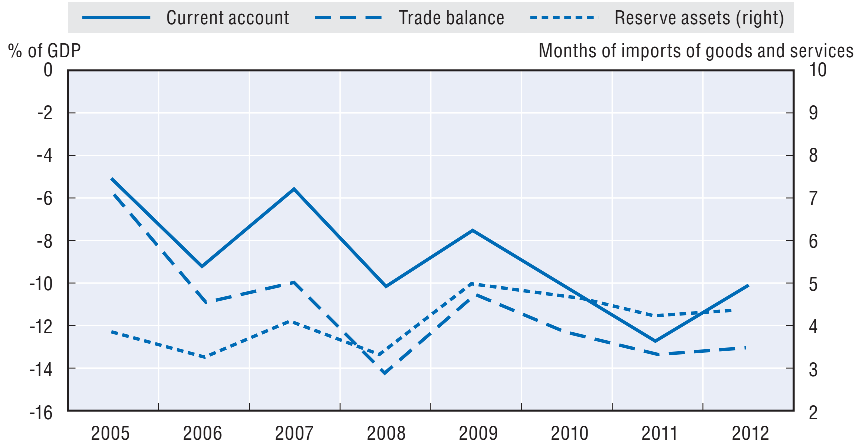
Source: *World DataBank*, 2012.

Nevertheless, in recent months an increasing number of sectors have been showing **resilience to the economic downturn**. Following several years of decline, the textiles sector displayed positive export growth in 2012. Business activities, transport, food manufacturing, banking and insurance, and tourism have also maintained consistent growth since 2010. Total tourism receipts in fact reached MUR 44 378 million (USD 1 420 million) in 2012, a 3.9% increase since 2011. This is in particular thanks to demand from the South African market, to which textile exports grew by 35% in 2012 alone, and where Mauritius' market share on manufactured garments has risen from 1% in 2005 to 12% in 2012. In turn, improvements in banking regulation (Mauritian banks are largely profitable and the governance of almost all banks exceeds Basel II and III requirements) have been paying off in terms of financial sector growth.

As a result of these dynamics, exports picked up by 5% in 2012, and the current account deficit has narrowed slightly (to 10% of GDP – Figure 1.7). Total exports for the period January to October 2013 recorded a 13.5% increase over the corresponding 2012 period, and exports of Export Oriented Enterprises (EOEs) for the first nine months of 2013 amounted to 35 billion Rupees (USD 1.15 billion), a 5% increase compared to the previous. *Statistics Mauritius* reports a trade deficit of 53 290 million Rupees (USD 1.7 billion) for the first three quarters of 2013, 8.6% lower than for 2012. The IMF expects further narrowing of the current account deficit (to 7% of GDP by 2018) if Mauritius follows through with fiscal consolidation and planned sectoral reforms for greater competitiveness.

External trade is of crucial importance to the Mauritian economy: the average ratio of trade in goods and services for 2009-11 to GDP was 112%. To a far

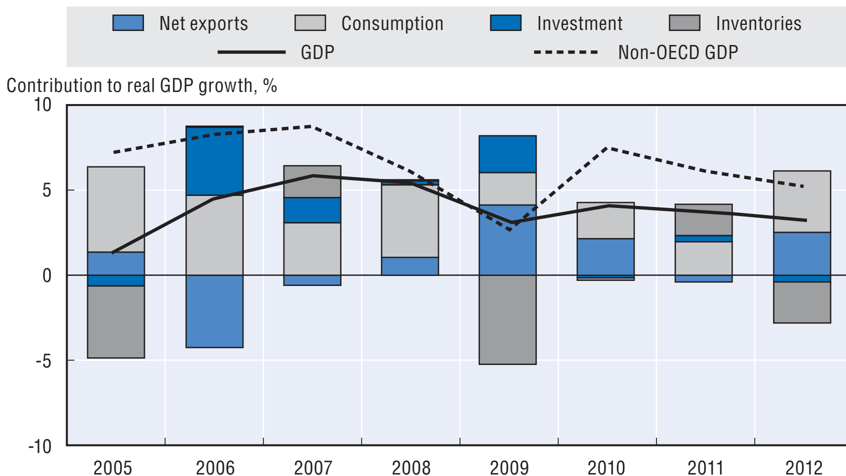
Figure 1.7. **External Balance for the Mauritian economy, 2005-12**



Source: IMF Country Report, April 2013.

greater extent than investment inflows, domestic consumption and exports have driven **GDP growth** in recent years (especially in 2010-12, Figure 1.8).

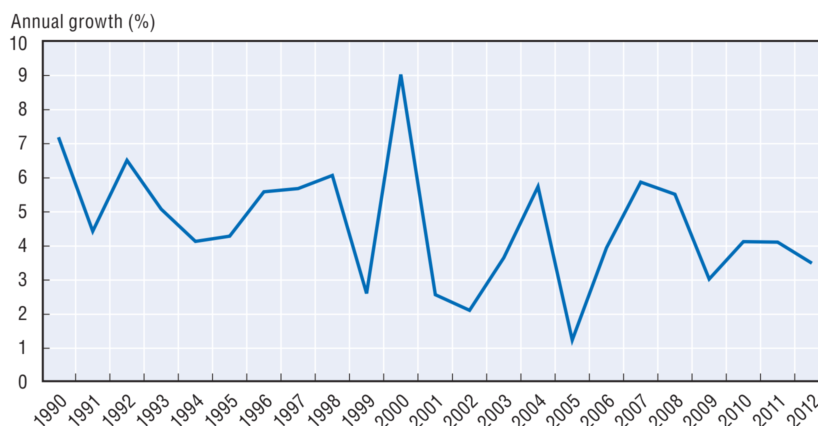
Figure 1.8. **Drivers of real GDP growth, 2005-12**



Source: IMF Country Report, April 2013.

Consequently, the deterioration of external trade caused by the 2008 financial crisis and more recently by the Euro-zone crisis considerably cut back GDP growth rates: following a peak at 9% in 2000, annual growth has varied mostly between 3 and just under 6%, dropping to 3-4% since 2009 (Figure 1.9). Overall growth (3.4% for 2012 and 3.75% forecast for 2013) has been kept from

Figure 1.9. **Annual GDP growth, 1990-June 2012**



Source: *World DataBank*, 2012.

dropping further by the boosting effects of new industries – especially financial services and ICT. These sectors have also safeguarded the island's rank in global exports of commercial services, which improved from 89th to 82nd of 181 economies over 2005-12.

Mauritius is fully aware of the urgency of a well-formulated growth and competitiveness strategy, which will diversify both export sectors and markets. It is notably aiming to reduce its dependence on demand from France and the United Kingdom as its main markets: 95% of sugar industry earnings and 72% of tourists to Mauritius were from European markets in 2010. As part of the national Resilience Programme (2012-15), Mauritius is therefore **gearing its target export markets towards emerging countries** in Asia, the Middle East and especially Africa. The 2012 Budget Speech plans for "more focused and more carefully thought-out promotion campaigns in India, China, and Africa", and the 2013 Budget introduces an "Africa Strategy", which aims to attract an increasing number of African investors, professionals and tourists to the island. By 2011 16.8% of total merchandise exports from Mauritius already went towards markets in Sub-Saharan Africa, up from only 7.5% in 2000.

As announced in the 2013 Budget, Mauritius is formulating a joint "trade and investment strategy for Africa" which will notably explore opportunities for better positioning the country's **financial services sector** *vis-à-vis* the rest of the continent. The Commonwealth Secretariat will assist Mauritius in: refocusing the country's trade and investment towards Africa; assessing the competitiveness of the Mauritius International Financial Centre (MIFC), in view of developing a marketing plan for the financial sector; and proposing the development of a "global Africa hub" in Mauritius. Meanwhile, expansion of the **tourism industry** will particularly target Chinese and Russian markets; and since 2013 Mauritius has begun establishing a textile corridor with India and South Africa.

The government of Mauritius has recognised that current competitiveness risks derive not only from global economic contractions in EU markets, but also from a weak economic and productive structure – and therefore that basing the island's trade and growth model on trade preferences and on diversifying export markets alone cannot be sustainable. Rather, beyond demand-side strategies the government is increasingly emphasising **supply-side policies for improving productivity and competitiveness**. Mauritius will need to upgrade both its domestic and export industries, and also to encourage a more risk-taking and innovative stance among domestic private entrepreneurs, so as to better address international competition.

These elements are recognised to some extent in the Economic Restructuring and Competitiveness Programme (ERCP, launched in 2010 and currently replaced by the **Restructuring Working Group**, RWG). The latter promotes a restructuring plan based on SME support, market diversification (especially towards emerging market economies), improvement of products, efficiency, and productivity. This long-term stance in policy planning has since been further reflected in the **Economic and Social Transformation Plan** (ESTP), currently under development to guide transformation of the productive structure of Mauritius over the next ten years. Such an approach can enhance macroeconomic stability – indeed the credit rating of Mauritian sovereign debt has been upgraded from Baa2 to Baa1 by Moody's Investors Service in 2012.

The importance of supply-side determinants of growth and competitiveness is also fully acknowledged in the context of **international trade negotiations**: the WTO notes that the Mauritian stance in these negotiations places priority on addressing the **supply-side constraints** of developing economies in order to improve competitiveness and upgrade their standards and technical regulations – and therefore considers trade preferences as a temporary arrangement, which should progressively be replaced by trade-related solutions. Likewise and within the context of the Aid for Trade initiative of the Doha Development Agenda, the Mauritian government is advocating a wider interpretation of the term "trade-related capacity-building": it argues that this should be interpreted as "building capacity to produce and trade", rather than being limited to training and information dissemination alone.

In addition, any improvements in competitiveness and productivity will be linked not only to external trade policies, but also to policies supporting **internal trade and the domestic factor markets**: in the face of increasing competitive pressures – especially from Asian production – Mauritius essentially has the choice between a policy framework based on import tariffs or local content requirements for labour and other factor inputs, and a more competitive regime for stimulating trade linkages within the domestic economy. To date, the latter approach has prevailed; for example the large-scale customs tariff reforms that began in the 1990's and that were accelerated with the 2005 Budget have not

been reversed despite the contextual and structural constraints since faced by the Mauritian economy. Rather, government has continued to ensure that all trade decisions related to meeting both its regional and WTO commitments are transposed in domestic legislation. It is also increasingly seeking to enhance the quality of local factor markets by improving the domestic human resource and infrastructure base (as addressed in Chapters 4 and 5).

1.2. Investment policy context

Investment and business environment improvements

Government policy in Mauritius is firmly centred on **promoting foreign and domestic investment**. For the Mauritius Board of Investment, "the growth equation is simple: no investment, no growth". There is strong recognition of the continuing importance of both domestic and foreign direct investment (FDI) as: generators of employment and income; vehicles for technology transfer; and means for higher economic growth. In recent years, government has been especially intent on **attracting FDI from emerging economies**. Throughout the liberalisation process, government has co-operated closely with the private sector, emphasising the importance of private-sector-led growth and introducing supportive legislations and policies. Multiple reforms have been undertaken in this perspective, including:

- strengthening provisions for investor protection – the 2012-13 World Economic Forum's Global Competitiveness Report gives Mauritius a score of 7.7 out of 10 on the **strength of investor protection**, which places the island at the 13th position out of 144 economies covered;
- opening most economic sectors to **foreign ownership** – with some exceptions, listed in Section 1.4.1;
- enactment of the **Investment Promotion Act 2000**, which established the Board of Investment; and
- enactment of the **Business Facilitation (Miscellaneous Provisions) Act 2006 (BFA)** – this marks the start of a new approach to attracting investment inflows in Mauritius, by privileging simplification of business procedures and of the fiscal system.

As concerns incentives for investors, over the 2000's and in line with the rationalising approach of the above measures, Mauritius has gradually moved away from an investment regime based on numerous and overlapping incentives towards one based on a simplified low-tax regime. The BFA facilitated and simplified business procedures, and removed investment incentives (with the exception of the Freeport Scheme and the Integrated Resort Scheme, and the subsequent creation of the Real Estate Scheme). In parallel with the amendment of the investment incentives regime, the tax

system was flattened and a single taxation rate of 15% was adopted for corporate and personal tax, in order to create a level playing field for everyone in the country and improve tax administration. In recent years this rationalisation strategy has been particularly spearheaded by the Ministry of Finance and Economic Development (MOFED) as regards simplification of the tax framework, for instance with the recent reduction of registration duty (from 13.2% to 5%), and abolition of the Capital Gains Tax among others.

The regime for **business licensing and acquisition of property** by foreigners was also streamlined since the enactment of the BFA. The trade license was removed and replaced by a single trade fee, and separate permits were merged (leading to the Occupation Permit and the Building and Use Permit, discussed in Chapter 3). Since July 2013, the Registrar of Companies has begun acting as a single point of payment for trade fees, and makes the following online services available: incorporation of companies, company search, and payment of annual fees. Moreover, the Companies Act created a unified core legal regime for all companies set up in Mauritius. Foreign companies, which are incorporated outside of Mauritius, are also allowed to conduct business in the country. Direct ownership by foreigners of shares of Mauritian companies nonetheless requires an authorisation from the Prime Minister.

In order to derive the maximum benefits from these investment facilitation reforms, over the last decade Mauritius has built a sound network of **Investment Protection and Promotion Agreements** (IPPAs), notably with other African countries. Coupled with its network of Double Taxation Treaties, it reinforces the country as a major investment hub for FDI into Africa. Many investors channel their investments into Asia and Africa via Mauritius, as the country offers offshore jurisdictions' traditional advantages, such as favourable tax policies, combined with the benefit of its BITs, such as core protection standards and access to Investor-State dispute settlement systems. The BIT programme and the prospect to engage further into treaty negotiations is part of this strategy to establish Mauritius as a launch-pad for investment. So far, Mauritius has signed 39 BITs, out of which 16 are still pending ratification. Once entered into force, they will play a crucial role to strengthen Mauritius unique position as a gateway to investment in Africa.

The Mauritian business environment has visibly improved as a result of these many reforms, as measured by the World Bank Doing Business rankings: from 49th place in the 2007 *Doing Business Report*, Mauritius reached the 27th place in 2008 and the 20th out of 189 economies in 2014. The 2013-14 World Economic Forum's Global Competitiveness Report also reflects the effects of this simplification approach; over 2013, Mauritius moved up by nine notches (from 54th to 45th out of 148 economies, the best ranking in Africa) in terms of overall competitiveness. It is moreover ranked far ahead (9th overall for both 2012 and 2013) in terms of effect and extent of taxation.

Public-private platforms to accelerate business facilitation reforms

In order to further this progress, a **Joint Public Private Sector Business Facilitation Task Force** was set up and operates since October 2011. It is co-chaired by the Financial Secretary of MOFED and the Director of the Joint Economic Council (JEC, representative of private sector). The function of this Task Force has been to identify bottlenecks and review systems, procedures and legislations in order to continuously improve the business environment in Mauritius. The Task Force has notably contributed towards a system, operational since early 2012, to reduce time for registering property from 15 days to two. More recently this mandate of providing strategic guidance for the removal of red tape and bureaucracy has been shouldered at the highest level of government, within an **Inter-Ministerial Committee (IMC) on business facilitation.** Set up in August 2012, Committee is chaired by the Minister of Tertiary Education, Science, Research and Technology, and also comprises the Ministers of: Housing and Lands; Local Government; Tourism and Leisure; Industry, Commerce and Consumer Protection; and Business, Enterprise and Co-operatives.

1.3. Investment trends

Foreign and domestic private investment are falling as a share of total investment

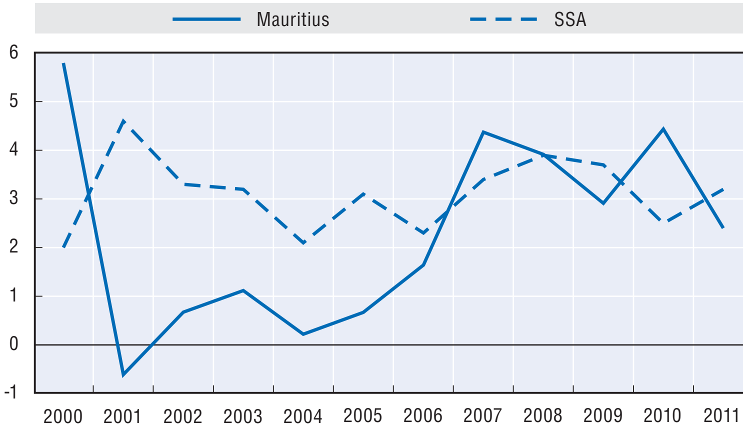
Net FDI inflows into Mauritius reached a high of USD 431 million in 2010, followed by USD 273 million in 2011. Cumulatively the island has attracted approximately MUR 70 billion (USD 2.24 billion) in FDI over 2005-13. FDI inflows then witnessed a 20% increase in the first half of 2012, reaching an estimated USD 320 million by the end of the year. Yet **FDI inflows as a share of GDP** have not shown a consistent increase – these reached just 2.4% of GDP in 2011, after a spike to 5.8% in 2000 and a dip into negative figures in 2001 (see Figure 1.10). As such, since 2006 Mauritius has been roughly on par with the Sub-Saharan African average in terms of the share of FDI in GDP.

It should nevertheless be noted that although the absolute levels of FDI in Mauritius remain rather low by international standards, **on a per capita basis** FDI levels far outstrip those of Sub-Saharan Africa (Figure 1.11). Thus, per capita FDI reached USD 212 in Mauritius in 2011, compared to only USD 46 for the sub-continent overall.

Gross Fixed Capital Formation (GfCF)

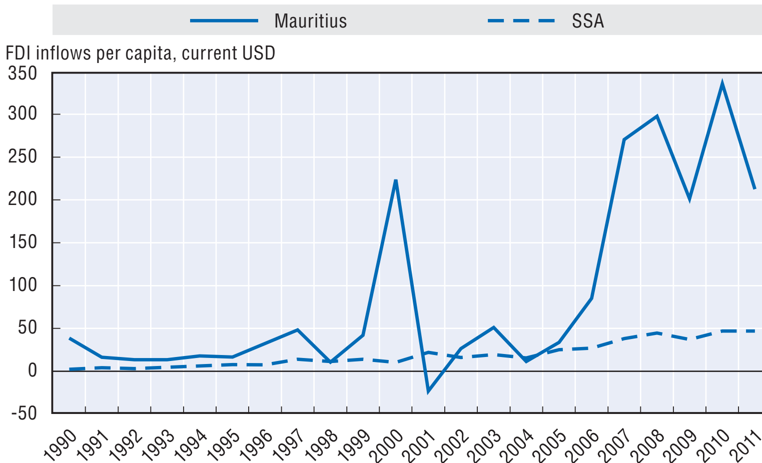
In Mauritius, FDI has trended between 16% and nearly 18% of GFCF since 2007, which compares quite favourably against international standards. However the fact that the FDI/GFCF ratio has barely increased since 2006 is not encouraging. Meanwhile, **GFCF as a percentage of GDP** fell to an all-time low

Figure 1.10. **Net FDI inflows as a per cent of GDP in Mauritius and Sub-Saharan Africa, 2000-11**



Source: *World DataBank*, 2012.

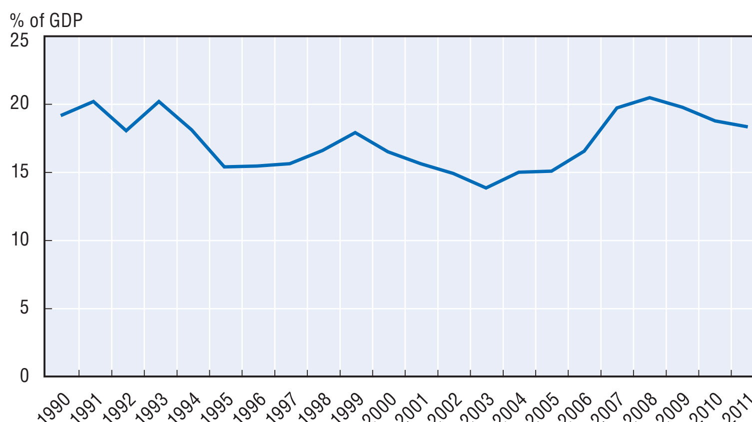
Figure 1.11. **Net FDI inflows per capita in Mauritius and Sub-Saharan Africa, 2000-11**



Source: *World DataBank*, 2012.

(just below 14%) in 2003, but then increased sharply to peak of above 20% in 2008 before the financial and economic crises took their toll (Figure 1.12). This ratio signals how much value-added in total domestic production has been invested rather than consumed (notably in the form of land improvements, machinery and equipment purchases, and physical infrastructure). In 2012, the leading sectors as a share of total GFCF were real estate (32%), hotels and restaurants (10%), wholesale and retail trade (10%), and electricity and water

Figure 1.12. **GFCF as a share of GDP, 1990-2011**



Source: *World Bank Stats*, 2012.

(8%), whereas other sectors – arguably the most labour-intensive and "productive" ones, including manufacturing, construction and agriculture – were far behind. The GFCF/GDP ratio thus remains slightly below the standard not only for African countries (about 21-22%) but also for industrialised countries (where marginal returns to additional capital are in any case low, due to large volumes of pre-existing capital stock – about 23-25%). The ratio falls especially short of fast-growing countries in East Asia, which have reached rates as high as 40%. Such stagnation can seriously limit the room for progress in terms of economic competitiveness; it also reveals that private investment in Mauritius may not be functioning effectively as a relay of public investments (see further below).

Therefore, there is a **strategically important role for FDI to play in increasing the GFCF/GDP ratio** in the short-term: FDI is indeed the component of GFCF in which government has the most room for manœuvre, since domestic investment is generally limited by more structural factors and is often less directly responsive to investment promotion activities. In the longer-term better **stimulating domestic private investment** will in turn require clear supply-side policies for competitiveness and value-addition in strategic economic sectors. This necessity has been noted by Mauritian entrepreneurs themselves – in its memo for the 2013 budget, the Mauritius Chamber of Commerce and Industry (MCCI) for instance proposes that the BOI complement its role of promoting the Mauritian destination to foreign investors, with increased and proportionate efforts to stimulate domestic investment. This will nonetheless also require a more responsive and dynamic attitude from the domestic private sector itself, which has to date responded only weakly to BOI efforts to stimulate niche economic sectors (as for instance exemplified by the stalling of government efforts to promote the land-based oceanic industry in the past).

Inward and outward FDI by sector and alignment with investment strategies

Investment promotion and industry support efforts in Mauritius are targeted at several specific sectors, as outlined in the latest Budget Speech. **Sector-specific consolidation plans** include: consolidating and increasing productivity in sugar; boosting non-sugar agriculture with a view to increasing food security; ushering in agri-technology and biofuel; passing enabling legislation to widen the spectrum of financial vehicles under MOFED's jurisdiction, and to facilitate investment in the financial sector (including in insurance); increasing the attractiveness, visibility and accessibility of the tourism sector; and pushing emerging and high value-addition industries, such as knowledge services, commercial marinas and film. BOI has additionally identified five promising sectors (all at high levels of industrial sophistication) for focus in coming years: agribusiness and biotechnology, hi-tech manufacturing, medical tourism, seafood/aquaculture, and knowledge-based industries.

These sectoral priorities are not very visibly reflected in FDI inflows by sector – perhaps because these sectors are primarily identified for industry support, with investment attractiveness being a secondary consideration in many cases. Short-term imperatives of employment creation and domestic economic resilience sometimes dominate at the expense of strategic investment objectives, as is indeed visible in national development strategy documents (see Section 1.4). Over 2006-12, FDI inflows have been strongest – but irregular – in financial services and real estate (Figure 1.13). Tourism has suffered some decline in investor interest since 2007, but new FDI sectors such

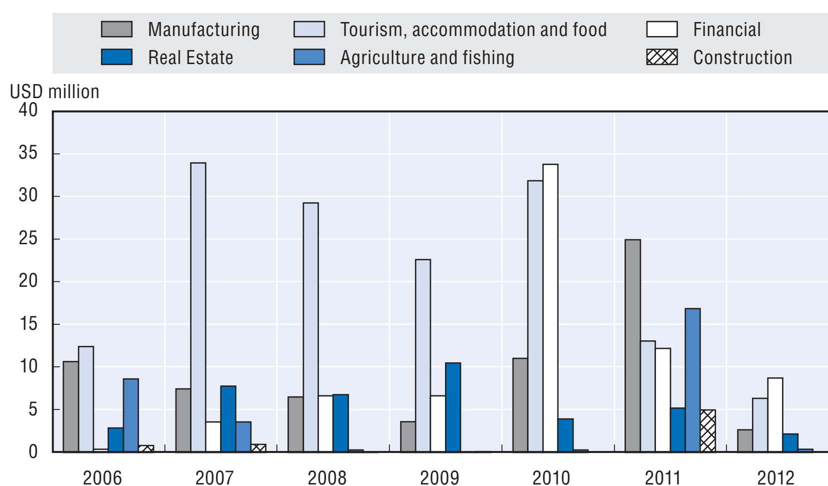
Figure 1.13. **Inward FDI by sector, 2006-March 2012**

Source: *Bank of Mauritius*, Q1-2012.

as healthcare and construction have emerged in 2010. By 2011, the leading sectors in terms of share of FDI were: real estate (48%, through the IRS, RES and IHS incentive schemes); construction (22%); and financial services (17%).

Trends for sector composition of **outward FDI flows** (OFDI) have likewise lacked specific direction: while tourism has received the largest share of outward investment since 2006, health and financial services spiked very visibly in 2010 but have fallen off since (Figure 1.14). The absolute volumes of OFDI (USD 89 million in 2011) are still much lower than for inward investment (USD 273 million). These distributions further highlight the importance of increasing the strategic weight of long-term inwards and outwards FDI objectives in Mauritius's overall development and competitiveness strategy.

Figure 1.14. **Outward FDI by sector, 2006-March 2012**



Source: *Bank of Mauritius*, Q12012, 1.4.

Comparing the volumes of FDI, ODFI and domestic private investment to public-sector investment reveals some stagnation in the relative share of overall private investment in total investment. While total investments in Mauritius grew by 2.1% in 2011 for instance, this trend was mostly upheld by a 9.9% real increase in public investment. By contrast, private investment grew by only 4.0% in 2011 (a decline of 0.6% in real terms). **Private-sector investment as a proportion of GDP** therefore declined to 17.9% in 2011 from 18.8% in 2010, and private investment fell from 75.5% to 73.6% of total investment over 2010-11. An important challenge for Mauritius in the current financial context, and which is fully recognised by government, will therefore be to strongly stimulate both domestic and foreign private sector investment so as to consolidate private investment inflows and ensure that these are not crowded out by public-sector investments.

1.4. Main policy challenges and opportunities

The policy context and investment trends described above depict a strong and maintained momentum for simplifying business establishment and rationalising investment incentives and tax frameworks so as to better stimulate foreign and domestic investment in the economy. However, this overview also suggests that although Mauritius has undertaken multiple reforms – spearheaded by BOI and MOFED – to improve the investment environment, there remains scope for enhancing **competitiveness and growth prospects**. As previously mentioned (and as current trends in foreign and domestic private investment, GFCF, export market shares, and value-addition suggest), **Mauritius appears to be at a crossroads**: current and future policy choices may well determine whether the island's long-term dynamic of economic progress will be sustained. While many policy documents point to the ongoing economic downturn as a principal cause behind the current economic standstill, such a picture is overly focused on demand-side elements and might overlook more **structural issues hampering Mauritius supply-side capacity.**

As reflected in national resilience and economic restructuring programmes, government justly perceives that the current challenges in terms of deteriorating export competitiveness, insufficient employment generation, and weak growth of domestic private (and especially SME) investment, pose considerable long-term development risks. To date however, **investment policy has not been fully leveraged as a tool for tackling these structural challenges** – as is demonstrated by an insufficiently unified investment regime, and by the absence of a coherent and overarching national investment strategy which is aligned with long-term infrastructure and human resource development plans. In order for the investment policy framework to efficiently tackle these supply-side challenges, it is essential to address remaining bottlenecks to enhancing both foreign and domestic investment. This section highlights several of the most apparent policy issues as well as promising "niche" opportunities for further competitiveness; and Section 1.5 makes a few recommendations for each of the relevant policy areas.

1.4.1. Investment policy

Investment policy relates to the laws, regulations and practices which directly enable or discourage investment and that enhance the public benefit from investment. It covers, *inter alia*, policies for transparent and non-discriminatory treatment of investors, expropriation and compensation laws and dispute settlement practices. Transparency, property protection and non-discrimination are core investment policy principles that underpin efforts to create a quality investment environment for all. In general the Mauritian laws

and regulations dealing with investments and investors provide for a predictable and transparent regime, and Mauritius is upheld in the international community as a model of compliance with investment policy international best practices. The recommendations that follow from the observations below are detailed in Section 1.5.1 and relate to: the overall legal framework; the ownership registration system; the implementation of Intellectual Property Rights; foreign investors' access to dispute settlement means; and the protection and promotion provisions contained in investment agreements.

Openness to foreign investment

Over the last decade, the Government of Mauritius has made continuous efforts to establish a conducive and transparent legal and regulatory framework for foreign and domestic investment. Mauritius' investment climate is generally transparent and open, although several restrictions apply in various sectors to both domestic and foreign investors. As regard foreign investors, a few sectors contain some restrictions, which are not unusual, including in OECD countries. In particular:

- In **television broadcasting**, foreign capital in a company must be less than 20%.
- Non-citizens are not allowed to hold more than 15% of shares in listed **sugar companies**.
- A certificate of authorisation from the Prime Minister's Office is required for non-citizens to acquire **real estate property** in Mauritius, or to acquire shares in a company that owns immoveable property in Mauritius. Such purchases must be financed with funds transferred from abroad through the banking system.
- Approvals from the Prime Minister and the Minister of Home Affairs are also required for investments in **banks** that hold immovable property in Mauritius.
- In the tourism sector, several limitations apply to foreign investors in addition to general requirements for both domestic and foreign investors. Foreign investment is restricted to a maximum equity participation of 30% in diving centres. Tourist guide services, as well as activities requiring low level of investment, are reserved to Mauritians only.
- In the legal services sector, foreign law firm can provide legal services only in relation to non-judicial proceedings (i.e. arbitration, mediation, conciliation and other forms of consensual dispute resolution), or in relation to foreign law or international law. A liberalisation of the legal services markets is however currently envisaged by the government.

- In the fisheries sector, licenses to operate a Mauritian fishing vessel can only be granted to Mauritian nationals or to bodies incorporated in Mauritius and having a place of business in Mauritius.
- Several threshold criteria apply in the tourism sector.

Protection of immovable property rights and access to land

Investors' rights are soundly protected both by domestic law and through international commitments. For example, investors benefit from a remarkably **strong constitutional safeguard against expropriation**, whose scope stretches from nationalisations to regulatory takings. In line with international best practices, the government reserves the right to take private property for public purposes, under the condition of a timely, adequate and effective compensation. The constitutional provision on expropriation contains very clear and detailed rules on what constitutes a taking for public purposes, thus providing for a predictable and transparent regime for expropriation. Independent channels are in place to review or contest expropriation decisions. Moreover, foreign investors benefit from an additional layer of protection provided via the expropriation provisions contained in all Bilateral Investment Treaties ratified by Mauritius. The **regulatory and implementing infrastructure** has been continuously modernised in order to better meet the business community's needs.

Nevertheless, and although Mauritius has a strong legal system of **immovable property protection**, the land administration system appears to be outdated and prone to errors and delays in processing and frequent fraudulent practices in land have been reported. This has prompted the government to undertake a modernisation reform of the registration of property ownership system as well as of the cadastral system, which is currently being implemented. The computerisation of the system is expected to speed up the registration process and to better protect users of the land transaction system. Moreover under the Non-Citizens (Property Restriction) Act, foreigners do not have the same rights as nationals to access to land ownership. Although land access has been considerably facilitated for foreigners participating in the IRS/RES/IHS schemes, in other sectors the purchase, acquisition or holding of property by foreigners remains subject to a rather complex regime. Authorisation of the Prime Minister's Office is required for non-citizens to acquire real estate property, and these purchases must go through the local banking system. Specific measures regarding foreign ownership rights do not appear to be in the land reform pipeline yet. The authorisation system is crediting with providing a great degree of clarity and transparency, and foreigners acquiring real estate property for business purposes benefit from a set of clear guidelines.

Protection of intellectual property rights (IPR)

Mauritius has a long-standing tradition of **legal protection of IPR**. Over the last decade, the government has updated its IPR framework to meet its commitments under the WTO TRIPs Agreement and to enable the country to become a leading knowledge-based economy (a strategic objective reiterated in several government budgets). Mauritius is a party to the main international conventions for the protection of IPR and patents, copyrights and trademarks are well protected through domestic laws. The main piece of legislation relating to IPR is the Patents, Industrial Designs and Trademarks (PIDT) Act 2002, which was enacted in order to curb the production of counterfeit products. The government of Mauritius recognised the need to revise the existing laws to better address the needs of all stakeholders and, in particular, to promote innovations. To achieve this goal, Mauritius is currently working towards the adoption of an Intellectual Property Development Plan, in co-operation with WIPO. This Plan should also help address inconsistencies in the institutional framework, which is composed of several, sometimes overlapping bodies. For example, both the Industrial Property Office and the Anti-Piracy Unit have investigative powers in cases of breaches of copyrights and trademarks. The current enforcement mechanisms are dispersed among various institutions. Such fragmentation of competences does not help in the fight against counterfeit products.

Development of international arbitration

Mauritius judiciary is independent and has been modernised, over the last years, in order to better manage the courts caseload. **Access to dispute settlement** by investors has been facilitated with the establishment of a Commercial Division of the Supreme Court. This is aimed to reduce long delays for dispute resolution, although the positive impact of the modernisation process in terms of accessibility and time required for dispute resolution is still to be confirmed. In parallel with the improvement of the judicial system, Mauritius appears to have given due consideration to the fact that the business community generally prefers to settle its disputes through **Alternative Dispute Resolution** means. The government has spent some efforts on promoting mediation and arbitration and has integrated such dispute resolution means into its legal framework. In order to facilitate commercial and investment arbitration proceedings, an International Arbitration Act was passed in 2008. It follows the amended UNCITRAL Model Law on International Commercial Arbitration, and is therefore in line with global best practices. The Mauritian legislature made the policy choice to establish two distinct regimes for domestic and international arbitration. While the former is regulated by the Code de Procédure Civile, the enactment of the International Arbitration Act (with a specific focus on investment arbitration)

reflects the political will to promote the country as a preferred jurisdiction for the conduct of international arbitration.

Mauritius therefore has some characteristics that should allow the country to become the attractive jurisdiction for international arbitrations that it ambitions to be. It is ideally located to become a centre of reference for disputes involving African, Asian, and European businesses, and it is endowed with an extensive network of Investment Treaties and Double Taxation Treaties. A centre for arbitration was recently established, in co-operation with the London Court of International Arbitration, to conduct international commercial and investment disputes in Mauritius. Yet, there are currently very few international arbitration proceedings being conducted in Mauritius. The government therefore **needs to continue its efforts to position the country as an important regional centre for arbitration.**

1.4.2. Investment promotion and facilitation

Mauritius is a regional front-runner on investment promotion and facilitation, in part because of the co-ordination role of the Investment Promotion Agency, the BOI. BOI has been repeatedly ranked by international institutions among the best IPAs. Especially since 2006, BOI and the MOFED have also led **dynamic reforms aimed at simplifying frameworks for corporate taxation and investment incentives**, paving the way for further liberalisation of the Mauritian economy. The abolition of most investment incentive schemes since 2006 additionally improves fiscal sustainability and allows BOI to focus its role on ameliorating the business climate. Alongside the BOI and MOFED, the Ministry of Foreign Affairs, Regional Integration and International Trade also plays a role in investment promotion and facilitation – notably through its diplomatic representations overseas, positioning it as the first interface of government with foreign investors. In close collaboration with MOFED and the BOI, the Ministry thus helps sensitise potential investors on the benefits of investing in Mauritius.

Both within Mauritius and overseas, **communication with investors** is regular and transparent: BOI organises regular workshops and discussion sessions with investors to collect information so as to propose to government facilitation measures, and MCCI and JEC also provide venues for voicing private sector concerns. As for **encouraging business linkages**, the Industrial and SME Strategic Plan 2010-13 commits – among other priorities – to: improving access to markets by better connecting suppliers to buyers, better branding, and new marketing infrastructure; improving the technology base for SMEs, including through an industrial linkage programme; and developing new growth poles for smaller enterprises.

Nonetheless, observed declines in investor confidence over 2010-12, the drop in foreign and especially domestic private investment, and the challenges faced by many export industries suggest that **additional promotion and facilitation efforts remain necessary in order to shore up investment**. While an encouraging regain in investor confidence has been noted in early 2013 (the latest MCCI Business Economic Indicator shows that confidence has risen from 85.6 points in the last quarter of 2012 to 91.6 points for the first quarter of 2013), sustained interventions are necessary to uphold this momentum in the longer-term. Investment promotion should be aligned with external and internal trade strategies, and should address the needs of domestic as well as foreign investors. Observations below and subsequent recommendations (in Section 1.5.2) concern: developing an overarching investment strategy; SME promotion; evaluation of investment incentives; and further facilitating investment linkages in the economy.

Weak coherence of investment policy with the national development and competitiveness strategy

The national development strategy in Mauritius is currently encapsulated within the **National Resilience Plan**, which is designed for 2012-15 and covers enterprises of all sizes, but with a special focus on SMEs, infrastructure development and job creation. Meanwhile the ECRP – and the Restructuring Working Group (RWG) which follows it, designed to build greater resilience to economic crises in the economy – place special emphasis on restructuring both the tourism and sugar sectors to make them more export-competitive and to attract greater foreign and domestic investment. These documents, together with the **Government Programme 2012-15** for Moving the Nation Forward, place dominant emphasis on wide-ranging social objectives such as employment, education and health. Aside from attempting to steer FDI promotion efforts towards sectors with high wage potential, however, they **do not establish any dedicated and strategic long-term goals for investment itself**.

In a similar manner, while the 2013 and 2014 Budgets dedicate sections to “improving the business environment”, neither document places emphasis on investment strategy more broadly. The main 2013 Budget measures announced aim only to: facilitate residence by foreign nationals in Mauritius; amend the visa regime; and increase the business facilitation efforts undertaken via BOI, the Registrar of Companies, and e-payment systems. Likewise, the 2014 measures pertain mostly to fast-tracking business establishment for important projects and reducing delays in the processing of Building and Land Use Permits. Few wider-ranging reforms are announced, nor inscribed within a long-term investment vision.

The alignment between broad investment and export competitiveness objectives is therefore only implicit. No specific provisions are made to

increase coherence between trade and investment policy, and to ensure that both of these are consistent in their approach to priority economic sectors. The policy momentum for regulatory rationalisation that emerged in 2006 does not yet appear to have been translated at the sector level or in terms of specific investment goals. **Mauritius indeed lacks an overarching investment strategy** in which strategic and time-bound investment objectives are defined. The forthcoming ESTP, under elaboration since 2013, could be a useful platform for this, as detailed below. This overarching strategy would need to recognise not only the systemic constraints to investment in Mauritius (small size and geographical isolation, high labour costs, incentives biased towards traditional sectors, etc.) but also the impediments posed by a skill base which is not tailored to suit the requirements of the investment sectors promoted by government (see below), and a prevailing reluctance among the domestic business community to take on opportunities beyond the "established" sectors of sugar, tourism, financial services and real estate.

Need for better evaluation of investment incentives

Abolition of the 20 investment schemes existing prior to 2006 with the BFA is a valuable step which privileges simplification of doing business instead of providing investors with fiscal benefits. The major poles of the business reform programme instead focus on fiscal consolidation, labour market reforms and business registration. This is a very good step towards reducing reliance on incentives. However there does not appear to be an **explicit mechanism for regular cost-benefit analysis of the incentive schemes** that do remain operational (including Mauritius Freeport, export-oriented enterprises, the Global Business sector, and also some *ad hoc* incentives for small-scale firms operating in specific labour-intensive industries). For example, the Integrated Resort Scheme seems to have suffered since the financial crisis, with many luxury development projects remaining vacant today. The IRS, IHS and RES schemes also create a heavy bias towards investments in real estate and property development which could be a cause for concern: such investments considerably depend on availability of land – a particularly scarce factor in the island – and may also expose Mauritius to speculative risks. This, again, demonstrates the need to regulate access to land independently from the origin of the investor.

Moreover, while some of these leading sectors may be labour-intensive (such as construction), they do not open as many avenues for value-addition or international trade linkages as other labour-based industries (such as tourism and agriculture, which attracted only 6% and 2% of FDI inflows respectively in 2011). As the sectors targeted by the IRS, HIS and RES present a particularly favourable risk-return payoff, they may additionally have weakened or distorted FDI incentives towards other sectors. The current situation may make re-evaluation of the structure of the maintained incentive schemes timely.

Addressing the needs of small enterprises

Small enterprises continue to face operational challenges. The very low level of domestic private investment in Mauritius, of which SMEs are often the primary source, is a sign of this challenge. Indeed, the stagnation of GFCF (even in years where FDI has grown) suggests that domestic private investment faces especially severe structural problems. The Restructuring Working Group (RWG) has placed a strong emphasis on reducing import dependence, promoting SME development, and facilitating technology transfer; and the 2012 and 2013 government budgets devote considerable attention to SME needs, both in terms of financial support and of capacity-building. However, beyond addressing challenges of creditworthiness, a strategy to increase SME awareness of investment opportunities, and to **channel their investments towards sectors of priority** (as determined by national investment, infrastructure and competitiveness strategies) might be needed. SME access to market intelligence, especially for export,oriented production, could for instance be improved.

1.4.3. Infrastructure investment, SOE governance and competition

Mauritius is recognised as a best-performer in terms of infrastructure development on the African continent. In recent years government has been especially intent on developing the ICT/BPO sector, given its considerable potential for investment and higher quality FDI, and for creating higher paid jobs for youths. Government recognises in the Government Programme 2012-15 it will be necessary to aggressively seek **FDI inflows and private participation** to finance its ambitious plans for infrastructure investment while maintaining control of public debt. By 2015, 10% of the financing of major public infrastructure in the Mauritius Public Sector Investment Plan (PSIP) should be through FDI flows.

Nonetheless, as acknowledged by the 2010 strategy for Facing the Eurozone Crisis “there is an acute problem of capacity in the implementation of public infrastructure”. As concerns the coverage and capacity of infrastructure networks, remaining infrastructure challenges for Mauritius include: over 80% **external energy reliance**, combined with the recognised need to invest in “green” (rather than “brown”) energy infrastructure; increasin**g traffic congestion in** Port Louis, which costs the economy an estimated 1.2% of GDP; a strong need for **water supply investments**, as aged infrastructure affects efficient water availability; and developing the potential of Port Louis as a key **shipping hub**, in the absence of which capacity constraints could limit the island’s strategic trade and development objectives (including the potential of Mauritius Freeport as an investment and re-export hub). Several initiatives are already underway to tackle these capacity constraints, such as: the Maurice Île Durable (MID) Initiative for energy management; the introduction of PPP schemes across the road sector

over 2012-15; and the expansion and modernisation of the port and the airport with a view to extending their regional span.

More complex and structural challenges for infrastructure development in Mauritius are posed by the **dominant position of state-owned enterprises** (SOEs) in the utilities sectors (including for electricity, water, waste water, postal services, and television broadcasting). This limits competition and efficient service provision in these sectors, and has a deterrent effect for private investors seeking to engage in infrastructure markets. Moreover, the performance and service delivery of SOEs could be better monitored and enforced: until recently procurement by public entities had been poorly regulated due to the weak clout of the Independent Review Panel (IRP); and while an independent sector regulator operates effectively in the ICT sector, there is no independent mechanism in place for pricing and regulating water and energy markets. Encouragingly the government is taking steps towards addressing both of these regulatory shortcomings as of 2013.

In addition to reviewing the position of SOEs in infrastructure markets, private participation in infrastructure could also be enhanced by **improving the regulatory and institutional framework for public procurement and PPPs**. While the latest Government Programme and Public Sector Investment Plan (PSIP) both highlight the crucial necessity of increasing private investment in infrastructure, the enabling regulatory framework indeed remains incomplete and insufficiently enforced. There are a lack of clarity and blurring of responsibilities in existing procurement and PPP legislation, and a confusing multiplicity of responsible bodies for PPP. Moreover, the PPP legal framework is somewhat disjointed, with some inconsistencies and overlaps among the PPP Act, legislation on public financial management, and public procurement laws. This has been reportedly blocking progress on major PPP projects.

Suggested policy recommendations to address these infrastructure investment challenges, as detailed in Section 1.5.3, include: strengthening corporate governance of SOEs; creating a more level playing field between private and public infrastructure providers (including the implications on competition, pricing and regulation of infrastructure sectors); and enhancing the legal framework for private participation in infrastructure procurement.

1.4.4. Grasping available opportunities for trade

Need for a more structural approach to export competitiveness

As recognised by the Government Programme 2012-15, **export-oriented enterprises are facing sharp challenges**. Despite slightly improved results in tourism and textile exports in 2012, Mauritian exports are at constant risk of losing competitiveness *vis-à-vis* other countries participating in global markets. As a result, it will remain challenging to narrow the deficit in the

external balance and to improve the terms of trade for Mauritian exports. Internal trade is also facing challenges, as Mauritius has not sufficiently positioned its domestic production in international supply chains. The Government Programme commits to rebalancing exports and capturing new opportunities in existing and emerging markets. Yet, this demand-side approach will provide mostly short-term solutions if **more structural strategies** are not developed alongside. It will also be important for such strategies to be coherently aligned with targets in other policy areas, such as infrastructure, human resource development and investment.

This weakness is pointed out by the Mauritius Chamber of Commerce and Industry (MCCI), which deplores the "lack of a strong dedicated organisation that would **specialise in the promotion of export of services in a strategic manner**"; as a result most efforts on this front so far have instead "been performed in a fragmented approach". Currently only the Industry Division of the Ministry of Industry, Commerce and Consumer Protection has developed a Market Penetration and Development Plan – with an emphasis on consolidating traditional markets, diversifying into new and emerging markets (including SADC and COMESA regions), and providing structured support to develop export readiness of enterprises. While these are important features of trade facilitation, such a time-bound plan cannot substitute for a **long-term strategy built on market diversification, product upgrading, and addressing structural and supply-side impediments to export competitiveness**. Given the importance that Mauritius places on ensuring the sourcing of raw materials from its trade and investment partners, this approach should notably consider the island's factor input challenges and also incorporate a comprehensive import strategy.

Institutional co-ordination on the design of national trade and investment strategies

International trade policy is overseen by the **International Trade Division** (ITD) of the Ministry of Foreign Affairs, Regional Integration and International Trade (MoFARIIT). Within this Division, since 1996 the Trade Policy Unit (TPU) has ensured that obligations under international and regional trade agreements are integrated into domestic laws and regulations, and also has primary responsibility for the formulation, review, and assessment of trade policies. MoFARIIT has instituted several levels of inter-Ministerial and inter-institutional co-ordination on all aspects of trade at technician, high official and ministerial levels. The regular exercise of WTO Trade Policy Review, carried out on three occasions by MoFARIIT to date, serves as an important platform for consultation, co-ordination and comprehensive review of trade strategy and economic policies. As the last Review was concluded in 2008, and given that several new trade policies have been concluded over the past five years, it may now be desirable to embark on a new Trade Policy Review.

Moreover, two trade Committees (the Trade Co-ordination Committee and the Joint Public-Private Sector Committee) involve the private sector, BOI and other government agencies in trade policy formulation. This can provide a promising standing mechanism for **addressing bottlenecks to both investment and trade simultaneously**, especially if further efforts are made to enhance long-term co-operation and regular communication among these bodies. This would help ensure full policy coherence between trade and investment strategies in the country – including at industry and sector-specific level. Reinforcing such institutional co-operation will notably be necessary for the elaboration of complementary trade and investment strategies at the national level (as recommended in Section 1.5.4). In addition concrete implementation and follow-up on trade policy reform would be facilitated by tempering the current demarcation between agencies charged with trade policy formulation and implementation. Fusing these functions rather than addressing them in parallel could help streamline trade and contribute to the expansion of trade both regionally and in Mauritius's traditional markets.

Role of the State Trading Corporation and Agricultural Marketing Board

Through the **State Trading Corporation** (STC, set up in 1982 as the trading arm of the Government of Mauritius for the importation of certain essential commodities), government controls the import of rice, wheat flour, petroleum products, Liquefied Petroleum Gas, and – until July 2011 – cement. Prices of these products are thus fixed by the STC. Meanwhile the importation or exportation of a specific set of agricultural products requires clearance from the **Agricultural Marketing Board** (AMB). However, it is unclear whether the end-goals of food and energy security, as well as domestic competitiveness and environmental protection, are truly met by the actions of the STC and AMB (the STC's re-exports activity in the rice sector being a case in point – see Chapter 5). Moreover, the maintenance of import and export controls entails high fiscal costs: the IMF projects that untargeted subsidies on LPG, rice and flour cost 0.4% of GDP in 2013. Furthermore, the price-setting functions of these bodies may be obsolete, and often cause market inefficiencies rather than ensuring affordability for domestic consumers: since 2010, the STC's automatic pricing mechanism for petroleum has for instance resulted in high price volatility and in poorly understood price movements, in part because fuel retail prices were adjusted only in response to significant changes in international prices – thus generating delays in adjustment. As noted by MCCI, with the Competition Commission and the Price Observatory being fully operational in Mauritius, the need for maintaining any form of price control through these bodies thus needs to be re-assessed.

OECD INVESTMENT POLICY REVIEWS: MAURITIUS 2014 © OECD 2014

1.4.5. Human resource development

Unemployment remains a challenge in Mauritius, and lack of skilled human resources is often considered a constraint to the country's competitiveness. This is despite a high Net Enrolment Rate in primary education (97%), gender parity (at 1.0), and generalised literacy (literacy for young adults between 15 and 24 years of age reaches 94.5%). Major problems include finding and keeping employment. Although the youth unemployment rate fell marginally over 2010-11, by 2013 it had risen to 37% of overall national unemployment (estimated at 8.3% for 2013). Female unemployment is disproportionately higher amongst the unemployed youth (at 26%, compared to 19.2% for young men). There is a considerable mismatch between labour supply and demand, with insufficient workers both at high-skill and low-skill levels: around 40% of unemployed do not have a School Certificate, and yet there is also reluctance to train for the most labour-intensive jobs (which therefore also experience shortages, and where most workers are sourced from abroad). The government acknowledges this as a central problem, given its repercussions both on unemployment and on technological progress (the ability of companies to absorb new technology being linked to a firm's skill composition). As a result employment is one of the priorities of the Government Programme for 2012-15, including through the launch of a three-year Youth Employment Programme, and the launch of a series of sector "skills gap surveys" to inform the development of a National Training Strategy.

1.5. Policy options to consider

1.5.1. Investment policy

Clarify the national framework for investor protection

Despite laudable efforts of modernisation and streamlining, the national regulatory framework is still dispersed over various legal and regulatory instruments. Mauritius has a number of laws and regulations related to the investment environment, but no all-encompassing Investment Law or Code. Moreover, all sectoral limitations and regulations are administered by distinct public agencies and institutions in charge of providing guidelines and *ex post* control of compliance.

For clarification and coherence purposes, **all relevant regulations and laws could be gathered in a single instrument** that would include core investment protection and promotion provisions, and provide the institutional framework for investment regulation and promotion. This document should also include a negative list of sectors in which foreign investments remain restricted. Such a process of clarification would provide a valuable opportunity to further engage all relevant stakeholders in an effort of co-ordination, consultation and consensus. A consolidated investment policy framework could feature in

a practical *Guide for Investors* and would provide greater predictability and transparency to investors.

Alternatively, the authorities could consider the **option of putting together an Investment Code**. In addition to promotion and facilitation elements, a Code could also gather core principles of investor protection, such as the guarantee of free transfer of funds, the Full Protection and Security standard, the Fair and Equitable Treatment, protection against expropriation without fair compensation, foreign investors' land rights, and dispute resolution. Such document could also set out a national treatment standard of protection, with a negative list of exceptions contained in an Annex. Although Mauritius has committed, through non-discriminatory regulations and investment treaties, to the National Treatment and the Most-Favoured-Nation standards with respect to investment, these standards are not clearly provided for, as general principles, in the overarching framework for investment. It could therefore be useful to firmly reaffirm such core protection standards within a general Code. **Such a code would indeed send a strong signal *vis-à-vis* partner countries to firmly reaffirm core protection standards, including the principle of non-discrimination.** This would not involve enacting new laws that would add to the already existing legal regime, but rather gathering all existing protection provisions and remaining restrictions within the same document, mainly for clarification and promotional purposes. Mauritius is already considering such possibilities following discussions with the OECD and across government stakeholders, with the possible formulation of a "compendium of investment laws" in the course of 2013.

A third option to consider, when deciding on Mauritius institutional set-up for adjusting foreign investment policy, would be to follow the approach taken by countries such as China and India, which have established **specific guidelines** under which their FDI policy is constantly reviewed. For example, since 2010, India has formulated, on a yearly basis, a consolidated FDI Policy, with the intent of enhancing the transparency, predictability and simplicity of the FDI regime. India's "Consolidated FDI Policy" gathers all information that may be necessary for established as well as prospective investors. The scope of FDI provisions is clearly delineated in a definitional section, followed by a chapter that lists all conditions on FDI (such as entry conditions on investments, specific conditions, entities into which FDI can be made, entry routes for investment, etc.). A subsequent chapter provides for the promotional framework for FDI and the necessary approval procedures. All sector specific conditions on FDI are exhaustively listed in another chapter. Lastly, provisions are made for penalties in case of violation of FDI regulations.

Continue streamlining of the land administration system

The clarification of investor protection safeguards as recommended above could be enhanced by **continued efforts to streamline the land administration system**. Currently, while in most cases access to land for foreigners is subject to specific authorisation from the Prime Minister's Office, approval is not required when property is acquired under a lease agreement not exceeding twenty years, or under the Real Estate Development Scheme to purchase a villa for non-business purposes, or when the investor has obtained the approval of the BOI for business purposes investments. Along these lines, further efforts towards simplification of the approval procedures for non-citizens could be usefully considered. **Government has started undertaking reforms to set up modern and harmonised registration and cadastral systems**, which are also needed to actually measure the extent to which foreign acquisitions take place. Only then may the authorities reconsider the degree of access to land by foreigners. Streamlining the land administration system is also key for allowing the sound management of a scare resource for a small island, notwithstanding the foreign or domestic origin of the investment. It may indeed be more relevant to regulate access to land broadly speaking, taking into account the fragility of Mauritius ecosystem, instead of establishing a restriction based on the origin of the investors.

Strengthen the enforcement mechanisms of the regulatory framework for Intellectual Property Rights

The **creation of a single national regulatory authority with enforcement powers,** in charge of all issues related to IPR would likely increase efficiency and coherence of the national framework for IPR. Institutional arrangements need to be realigned to meet the operational functions required for this sensitive sector. Further efforts in terms of **capacity building** must also be undertaken to strengthen supervising and enforcing functions. **A holistic approach is required across all institutions** involved in the administration of IPR to achieve a streamlined and integrated management system in order to better enforce IPR. The government seems to have been aware of these challenges and is in the process of setting up an empowered Mauritius IP Office in charge of administering all IP-related issues, as well as a supervising institution, the IP Council, expected to ensure co-ordination and synergies among all relevant institutions.

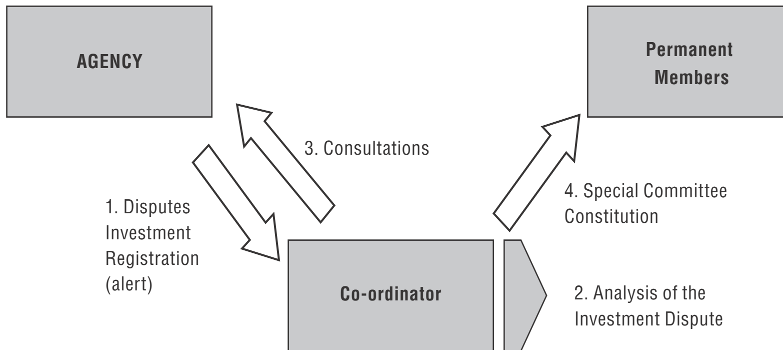
Give further momentum to the development of international arbitration

In order to **better position Mauritius as an important regional centre for arbitration**, government should uphold efforts to promote arbitration infrastructure existing within the Mauritian jurisdiction. This will notably

involve carefully considering the arbitration implications of the BITs signed by Mauritius, for which a few recommendations are provided below.

In addition to the provisions of the International Arbitration Act, access to arbitration is also granted to foreign investors through investor-State dispute settlement clauses in Bilateral Investment Treaties. Such clauses have a very liberal approach to arbitration, as they do not require foreign investors to exhaust local remedies before going to international arbitration. In this regard, although it is noted that Mauritius has never been involved in an ICSID case, it could be useful to **set up an investor-State dispute avoidance mechanism**. Such early alert mechanisms for the prevention of disputes are an increasingly common practice, notably in Latin America. For example, relevant public entities in Peru are required to share any information they have on potential emerging investment disputes to a designated Co-ordinator, within the Ministry of Economy and Finance. This early alert mechanism to central authorities, set up in a 2006 Law on the "co-ordination and response system of the State on investment-related disputes", allows for early and co-ordinated action to be taken. By virtue of the law, the co-ordinator is responsible for centralising information on concluded IIAs, in order to keep track of all commitments made by the State, and provides guidelines for the negotiations of dispute settlement processes (see Figure 1.15). Such initiatives are part of a broader effort to optimise the defence of the State in the event of international investment disputes.

Figure 1.15. **Co-ordination and response system of the State on investment-related disputes in Peru**



Source: Author calculations.

Mauritius, like most countries, commits itself to international arbitration through bilateral investment treaties, therefore providing a more favourable treatment, in terms of options for dispute resolution, to investors from treaty partner countries. In some countries' treaty practices, such unilateral undertakings are made under national investment legislation, rather than

through BITs or investment contracts. This alternative approach means that the consent to arbitration in the event of a dispute is offered to all foreign investors without regard to their nationality. Inserting a provision regarding dispute-settlement into the domestic investment legislation is, however, an onerous commitment that would require a thorough a cost-benefit assessment before being taken. The consequence would be that the State allows all foreign investors to directly go to international arbitration against Mauritius without additional consent required. Mauritius has a more cautious approach when providing its consent to arbitration, which has proved to be as efficient as the potentially more costly option of the unilateral consent given through national legislation.

Whatever the policy option Mauritius may choose, whether it is to provide a clear unilateral offer to arbitrate, or to simply recommend or authorise investor-State arbitration, it is crucial to avoid any ambiguous language on consent to arbitration. Should this not be the case, it would hamper legal predictability and potentially give rise to controversial arbitration awards. For example, Article 22 of Venezuela's Law for the Promotion and Protection of Investments has been interpreted, in some arbitration awards, as providing a unilateral offer to arbitration, while other arbitral panels reached opposite conclusions.

Likewise, the dispute settlement procedures provided for in Investment Agreements might deserve **more detailed guidance for the conduct of the arbitration and on other procedural requirements**. For example, the government is encouraged to clarify how the submission for ISDS will interact with domestic judicial and administrative adjudication procedure, through the **inclusion, for example, of a "fork-in-the-road provision" that requires investors to choose between litigation in domestic courts and international arbitration with the effect that once that choice has been made, it becomes final**. In order to ensure **greater control over potential arbitrations**, Mauritius should also consider whether it wants to exclude procedural matters from the scope of the Most-Favoured-Nation standard. There is indeed no clarification, in its existing BITs, as to whether the MFN provision must apply to procedural matters or merely to substantive rights.

Mauritius might also wish to further promote the **principle of judicial economy**. To this end, it is useful to set up a **mechanism to avoid frivolous claims**, i.e. claims that lack a sound legal basis, to better protect the country against potential abuses of the ISDS system. Another mechanism to foster judicial economy and to avoid inconsistent results is to allow the consolidation of claims having a question of fact or law in common, or arising out of the same circumstances.

Expand the network of Bilateral Investment Treaties and update their key content

In this context, and with the rapid evolution of investment law over recent years, it would be advisable to further **clarify and update the content of BITs core standards of protection** in order to better protect Mauritius' interests, both as a host and a home country. When deciding among various policy options, Mauritius must take into account its peculiar position, compared to other African countries, as it is not only an investment destination.

In this context, Mauritius plans to further clarify **policy directions in a revised Model BIT that would better reflect recent innovative practices and support further coherence among future BITs**. In order to support future treaty drafting, the government should undertake a **stocktaking and analysis of its existing BITs** to highlight potential inconsistencies and ensure that the provisions contained in the Model BIT are better reflected in individual BITs. In this endeavour, Mauritius might wish to refer to international best practices in investment agreements, as well as Model BITs developed in regional contexts, such as the SADC Model BIT Template. Another potential source that could be used for guidance purposes is the handbook prepared by the Secretariat of the Commonwealth, entitled "Integrating Sustainable Development into International Investment Agreements: A guide for Developing Countries", which identifies best practices in existing BITs and provides for innovative sample provisions. It could help Mauritian negotiators to make an informed choice between various policy options. Drawing on such Guides, Mauritius could enhance the coherence among future investment treaties.

Mauritius' investment agreements should better reflect innovative treaty practice, in particular with regard to the **admission of foreign investments**. So far, Mauritius has adopted an admission model, which requires the entry of foreign investments to be made in accordance with the laws and regulations of the host country. As a capital exporter and a platform for trade and investment, Mauritius might want to take into consideration, when negotiating with partner countries that act as capital importers, the liberalisation dimension of recent investment agreements and therefore extend the scope of core standards of protection (such as the Most-Favoured-Nation Treatment) to the pre-establishment phase. A liberalisation clause implies that all barriers to access are removed and that the national laws pertaining to the establishment are in conformity with the treaty provisions. Such liberalisation commitment often comes with a negative list of closed sectors or non-conforming measures. Mauritius treaty practice adopts an all-encompassing, **open-ended definition of investment**. The implicit inclusion of portfolio investment under the umbrella of Mauritian investment treaties might be part of Mauritius' strategy to become a hub for capital flows and therefore to bring under the umbrella of

its treaties all types of investments. On the basis of reciprocity, such a broad definition of covered investment also grants re-exported capital a better protection in partner countries' jurisdictions.

Additionally, Mauritius might wish to insert in its investment agreements a provision containing specific and detailed measures aiming at promoting investment flows. In its existing BITs, Mauritius adopts a best-endeavour approach and merely commits to encourage and promote investment. It could be beneficial to go a step further and to specify promotional activities that should be undertaken. For example, a provision requiring the State parties to exchange information on investment opportunities with a view to increasing investment flows could be inserted. Transparency has also a key role in **fostering investment flows**. Mauritius might want to include transparency regulations in its future BITs and impose on both host States and foreign investors an obligation of transparency in the exchange of information and in the process of domestic rulemaking. Finally, Mauritius could consider inserting more provisions safeguarding fundamental values, such as public health, environmental protection and labour standards. The inclusion of such general exceptions ensures that the BIT obligations will not prevent the country from applying its domestic legislation in order to safeguard any of these values.

In light of these observations, Mauritius might wish to reconsider and **regularly update** its current investment agreements through **renegotiations** with partner countries, and in line with the provisions of its Model BIT. So far, Mauritius does not have a programme of periodic review of existing international treaties and commitments. Regular revision of treaties should be the responsibility of a dedicated team, well trained, aware of new legal developments and sensitised to ISDS issues. Mauritius should usefully **keep track of treaty negotiations** to ensure a correct interpretation of the meaning given to the treaty provision at the time of the negotiations.

1.5.2. Investment promotion and facilitation

Elaborate a consolidated investment strategy document for Mauritius

An **investment strategy document** would need to: define strategic and time-bound investment objectives; ensure better coherence with other national strategy documents (on fiscal policy, trade, human resource development, infrastructure, etc.); and facilitate the alignment of the overall investment policy framework with these investment objectives. This would help boost growth in important industries, as well as improve policy coherence and predictability for investors. Moreover, while different **priority sectors** are outlined in several broad policy documents (like the 2010 report on Facing the Eurozone Crisis, government budgets, or the Government Programme for 2012-15), information on the process for identifying these

sectors remains scarce and fragmented across the existing documents. The elaboration of a national investment strategy should be based on broad and comprehensive consultations across government, private sector bodies, and civil society. The ongoing formulation of a ten-year Economic and Social Transformation Plan in Mauritius could be a fitting venue for developing such a strategy, perhaps as one of the ESTP's sub-components.

Establish a mechanism for examining the relevance and appropriateness of investment incentives at regular intervals

The systematic evaluation of investment incentives should cover not only the impact of these schemes on fiscal sustainability and investment flows, but also on socio-economic factors such as employment creation, business linkages, value-addition and technology transfer. These assessments should also consider whether or not the forgone fiscal resources would not be better employed in training, research and development, infrastructure investment, and other efforts that can potentially mitigate some of the structural and supply-side shortfalls that are currently constraining export competitiveness in Mauritius. Incentives should only be maintained as a compensation for proven market imperfections that cannot be otherwise addressed.

This evaluation of incentives should be consolidated within the Tax Authority and MOFED. Consolidating administration of all incentives under a single body can: limit risks of corruption and rent seeking; increase transparency by limiting the discretionary power of policymakers; help to avoid unintended overlap and inconsistencies in incentive policies; and enable policymakers to coherently address problems that may arise with the governance of tax incentives. These assessments should also involve open public consultation so as to accurately include social – and not only financial – costs and benefits in the analysis. Renewal of these studies on a biennial basis could ensure that incentive schemes continue to abide to all requisite principles for effectiveness and fiscal sustainability (see Box 3.1 in Chapter 3).

Comprehensively address operational challenges of smaller investors

The elaboration of an overarching national investment strategy (mentioned above) could be co-ordinated with a **streamlined strategy for SME support** (along the lines of the Industrial and SME Strategic Plan 2010-13, which will need to be revised and renewed post-2013). This could allow to further mainstream SME concerns and develop SME opportunities across all areas of investment policy and export promotion. **Implementation of the Industrial and SME Strategic Plan** should itself be carefully followed up on by the Ministries responsible (the Ministry of Industry, Science and Research, and the Ministry of Business, Enterprise and Cooperatives). It should also be aligned with the work of the relevant agencies and initiatives, such as the Small and

Medium Enterprises Development Authority (SMEDA) and the Mauritius Business Growth Scheme (MBGS).

Implementation and re-prioritisation of the SME-specific facets of the Strategic Plan could be undertaken by the Ministry of Business, Enterprise and Co-operatives. This could be facilitated by **rationalising the three arms of the Ministry** (namely SMEDA, the Cooperatives Division, and the MBGS), under the leadership of a single SME task-force which could consider means of further mainstreaming SME concerns and developing SME opportunities across all areas of investment policy and export promotion – together with representatives from the private sector and exporting businesses (through JEC and MEXA, for example).

In addition, government should actively implement considered efforts to include **SME in procurement contracts**, particularly if these are related to potential export niches; indeed as introduced in the Government Programme 2012-15, Mauritius has begun making modifications to its public procurement framework, so as to provide for a greater number of SMEs in the short list of restricted bidding for procurement. Bidding documents and processes are also being simplified to encourage SMEs to submit bids. For instance, as of 2013, SMEs bidding for contracts of under MUR 5 million (USD 160 000) no longer need to submit Performance Bonds and Advance Payment Guarantees within this process. These important initiatives should again be co-ordinated with awareness-raising among SMEs so as to ensure that the available opportunities are utilised to their best advantage. It is also necessary to ensure that these SME empowerment objectives do not come at the cost of procurement quality; facilitating SME participation in procurement should therefore be accompanied by **targeted supply-side policies for increasing SME capacity to latch onto procurement opportunities as well as new growth poles** – such as vocational training that could be directed at specific sectors of competitiveness.

1.5.3. Infrastructure investment, SOE governance and competition

Corporate governance of SOEs

Government established a **National Committee of Corporate Governance** (NCCG) in 2001, which set out the National Code of Corporate Governance in 2003. This Code applies to all enterprises, whether private or state-owned. The structured legal framework for corporate governance in Mauritius today also operates through the Companies Act 2001, Financial Reporting Act 2004, the Insurance Act, and the Listing Rules of the Stock Exchange of Mauritius. However although financial reporting has generally improved in quality over 2003-12, Mauritius would benefit from a stronger regulatory regime combined with effective monitoring and enforcement mechanisms. Based on the mixed

results of a 2011 ROSC report, the Corporate Governance Code will be revised, notably to make enforcement more adequate.

SOEs face distinct governance challenges from the private sector. Mauritius counts around 100 parastatal bodies, which contribute some 13% to GDP. Corporate governance difficulties derive from the fact that the accountability for the performance of SOEs involves a complex chain of agents (management, board, ownership entities, ministries, the government), without clearly and easily identifiable, or remote, principals. The 2010 strategy paper for building resilience in facing the Eurozone crisis highlights the importance for parastatals to "operate on a commercial basis and stop acting as a drain on the budget". As highlighted in a 2009 NCCG survey, SOE compliance with the national Code of Corporate Governance was much lower than by companies from the private sector listed on the stock exchange (at 44%). The **Office of Public Sector Governance** (OPSG, under the Prime Minister's Office) has been making progress on this front since, and has been granted the responsibility to ensure that SOEs become more cost-effective and outcome-orientated. While SOE compliance with the Code of Corporate Governance had risen above 50% by late 2012, poor governance remains a challenge – especially as there are no processes in place to ensure that the state does not interfere in day to day management of SOEs.

Functional separation of SOEs can help enhance corporate governance and financial management, by shedding light on the operational segments where losses and profits are made and increasing revenue transparency. Functional separation of integrated utilities thus can allow to better identify the segments which would be best-suited for private sector participation. The scope for unbundling of transmission and distribution facilities in the electricity and water sectors will however be somewhat limited given the small market size of the island.

Level the playing field between public and private infrastructure providers

To encourage private investment in infrastructure, it is indeed necessary to ensure that there is a **level playing field in infrastructure sectors** and that private investors are not disadvantaged with respect to state-owned infrastructure providers. In this context the monitoring role of OPSG should be carefully co-ordinated with other relevant bodies for SOE governance, including the Competition Commission of Mauritius (CCM) and sectoral regulators across infrastructure sectors. As elaborated below, the **independence and legal clout of such bodies** will be necessary to ensure efficient monitoring and enforcement of decisions *vis-à-vis* SOEs.

Mauritius should consider establishing an **independent regulatory agency for the electricity and water sectors**, as provided for in the 2005 Utility

Regulatory Authority Act (for which enactment is still pending). Notwithstanding the eventual setting up of the URA, the Central Electricity Board (CEB, the monopolist for electricity transmission and distribution in Mauritius) would continue to report to the Ministry of Energy and Public Utilities (MEPU) as it operates under its aegis. Although URA establishment was initially intended to take place in the course of 2013 to oversee the electricity as well as water and wastewater sectors, however, as of early 2014 this has not taken place and the measure is not mentioned in the 2014 Budget Speech. More momentum would therefore be needed on this front. Other reforms currently considered for the water sector include setting up a Water Authority (by merging the Central Water Authority, the Wastewater Management Authority and the Irrigation Authority), so as to improve water management and to also conduct regulatory functions. As suggested by MEPU, government should additionally consider renewed attempts for private participation in water provision, with input both from the CCM and from the suggested regulator.

The country could also consider establishing an **independent regulator for transport sector**. As of 2009, the **Mauritius Land Transport Authority** has taken over the activities of the Road Development Authority, the National Transport Authority and the Traffic Management and Road Safety Unit. One of the aims of the 2009-25 Long-Term Energy Strategy is to establish a new Land Transport Authority (or to revise its prerogatives), with the mandate to plan, implement and manage land transport with improved co-ordination and efficiency. Revision of the Authority's mandate could be a good opportunity to consider options for more independent regulation. The Land Transport Authority Bill of 2009 also empowers the Land Transport Authority to set up and manage a General Fund and a Road Decongestion Programme Fund. It should be ensured that these funds function as "second generation road funds", to help manage the financial side of road transport projects (in such arrangements, management is transferred from a ministry to an autonomous road agency in order to improve project management and to ensure that road maintenance funds are appropriately used and budgeted for over the long-term lifetime of road projects).

The establishment of independent regulators for these infrastructure sectors could take possible **guidance from the ICT Authority** (ICTA), which is leading the way for independent regulation in the ICT sector, with the appropriate legal statutory safeguards (through the amended 2011 ICT Act). It would be of equally crucial importance to ensure that the transport and electricity networks are competitive, fluid and responsive to industrial, commercial and other needs of the island.

Alongside these sector regulators, **competition authorities** also play an active role in levelling the playing field for private investment in infrastructure markets. This is especially the case for privatisation processes, including in

the upstream and preparation phases. Competition authorities require adequate resources, political support and independence to exercise these functions effectively, and to appropriately co-ordinate their work with that of sector regulators. CCM has effectively concluded MOUs with infrastructure sector regulators as well as relevant ministries (such as MEPU). Of the 21 cases under investigation by CCM since its inception in November 2009, several include parastatals as the main parties.

Nevertheless, the advisory role of the CCM could be strengthened: currently, while CCM can make **recommendations to Government** on the competition effects of policy, CCM is not viewed as competent for deciding how to weigh competition considerations against other effects of suggested policy – such as social or environmental objectives. Thus while CCM has worked on several projects of other regulatory authorities from a competition policy perspective, its role and advice on overall government policy could be enhanced and more systematically sought out. In addition, further collaboration between CCM and sector regulators in infrastructure markets could be facilitated by bolstering the technical capacity of CCM to engage in technical infrastructure **market studies** – particularly in cases of SOEs dominance, and where some form of private participation may be desirable.

Enhance the legal framework for private participation in infrastructure procurement

Government should consider revising the coherence of the **legal framework for PPPs**. Reforms to consider include by establishing an authority responsible for capacity-building, clarifying responsibilities among relevant bodies (including the PPP Unit and PPP Committee), strengthening the pipeline of PPP projects in strategic sectors, and updating the 2006 *Manual for PPP Guidance*. Alongside, government should increase efforts for **infrastructure financing** and explore ways for integrating these provisions into innovative PPP contracts (rather than depending on government funding, or on loans under the Maurice Ile Durable Fund).

Mauritius could also consider strengthening the role of the **Procurement Policy Office** (PPO) in monitoring and oversight of the behaviour of procuring entities as well as of privatised companies (former SOEs). Meanwhile the powers of the **Independent Review Panel** (IRP) for public procurement have already been increased as of 2013: as per the latest amendment to the 2006 Public Procurement Act, the fees submitted for appeals to the IRP have been made non-refundable. This can reduce abusive use of the procurement appeal mechanism by dissatisfied bidders, and help cut down the case backlog faced by the IRP.

1.5.4. Trade policy

Review trade strategies in view of greater competitiveness of both internal and external trade

In addition to diversifying export partners, trade policy should seek to: balance exports with growth of the domestic market; focus on more capital-intensive sectors so as to overcome the erosion of its comparative advantages; and upgrade and facilitate the links of Mauritian industry with international value chains. The step towards a coherent global economic strategy has not yet been taken in Mauritius, and foreign trade must be put in perspective with enabling human resource, infrastructure and investment strategies. Existing platforms for private sector consultation on trade policy – such as JEC, Mauritius Chamber of Commerce and Industry (MCCI), and the Mauritius Export Association (MEXA) – could be useful venues for a consultative and comprehensive review of trade strategy. In addition, given that the last *WTO Trade Policy Review* was concluded in 2008, and as several new trade policies have been concluded over the past five years, Mauritius is considering embarking on a new Review in 2014. This exercise could likewise contribute to developing a more coherent and well-rounded national trade strategy.

The **Government Programme 2012-15** makes several commitments in view of rebalancing exports and capturing new opportunities in existing and emerging markets. These include revamping the Export Promotion Strategy and Plan and developing a new industrial investment promotion strategy. Both of these objectives are particularly crucial and would fill important gaps in the current investment and competitiveness landscape of Mauritius. The forthcoming **Economic and Social Transformation Plan**, which is under elaboration since 2013 in view of addressing competitiveness concerns, could likewise be a useful platform for addressing these shortfalls. The ESTP will notably focus on: streamlining trade regulations; improving vocational and on the job training; raising the efficiency of SOEs; boosting public investment efficiency; and land law reform. It could provide a means of ensuring better coherence between trade and investment objectives and other national strategies (on fiscal policy, trade, human resource development, infrastructure, etc.), so as to address more structural bottlenecks to export competitiveness and to investment attraction. Such an integrated strategy should notably carefully consider the **potential and role of the Mauritius Freeport and of EOEs** in positioning Mauritius as a trade and investment destination – as these two sectors uniquely combine elements of both trade and investment facilitation.

Improve institutional co-ordination across trade and investment bodies

If Mauritius is to formulate the above two strategies (whether within or outside of the ESTP framework), given the very strong links between investment

and trade it is essential that the authorities responsible for elaborating and renewing them operate in close collaboration. This will require **stronger institutional rationalisation and co-ordination of the relevant bodies**, especially as communication between trade and investment authorities is currently mostly *ad hoc* in Mauritius. It may thus be desirable to formalise the communication between TPU/ITD, Enterprise Mauritius and BOI – for instance, by having a high-level representative from ITD as a board member of BOI, and/or by creating a high-level position for a trade development expert within BOI. In addition, the strong demarcation between bodies tasked with trade policy formulation and implementation may need to be reduced, to the extent that it has complicated policy roll-out and follow-up in the past. Stronger institutional co-ordination in the elaboration of national trade and investment strategies would allow to address not only existing structural obstacles to productivity and competitiveness in specific industries, but also to consider the island's needs in terms of sourcing of raw materials. It would thereby allow trade policy to serve a much more strategic and enabling role for promoting both external and internal trade in Mauritius.

A **common task-force** could be a useful venue for elaborating both investment and trade strategies concurrently, with frequent inputs from other relevant government bodies (such as the Human Resource Development Council and the Mauritius Institute of Training and Development, to optimise the absorptive capacity of the labour market in the priority economic activities identified by these plans). This will also need to **engage the private sector** (using the JEC, MCCI and MEXA platforms, as well as Enterprise Mauritius) in a regular consultative process so as to identify, in a realistic and pragmatic manner, sectors of priority focus for export promotion and investment attraction. This joint consultative platform or taskforce would also be well-placed to co-ordinate the elaboration of an "**Africa trade and investment strategy**", on which Mauritius will embark as of 2013 with assistance from the Commonwealth Secretariat. In addition the taskforce could, together with BOI, consider how to better promote and raise awareness of the facilities and opportunities offered by Mauritius Freeport among the international investor community.

Review role of the State Trading Corporation and Agricultural Marketing Board

The role of the AMB and STC in fixing prices and regulating trade would deserve careful re-consideration by government, as their current activities might fall short of intended social and economic objectives, create market distortions and come at considerable fiscal cost. Encouragingly, government remains open to re-evaluation of existing trade restrictions; this has been demonstrated in the cement sector (where upon recommendation by the CCM, the STC's control was phased out and the sector was liberalised

beginning in July 2011). In the same light, existing price-setting and export and import controls across all controlled sectors should be subject to frequent review – especially if these controls increase input prices and uncertainty for foreign and domestic investors. This regular assessment should cover the proportionality of the imposed controls, the associated economic costs and benefits, and any alternative and more efficient means of achieving food and energy security objectives. The STC and AMB may also benefit from better co-ordination with bodies responsible for trade and investment policy formulation, so as to verify that the rationale behind import and export controls remains relevant to current national trade objectives. In the short-term and absent immediate liberalisation of existing controls, price-setting by the STC should be determined according to more precise automatic pricing mechanisms, so as to limit distortion effects on the domestic market. In the longer-term, government should consider whether these bodies could not better deploy their resources for strategic market research or technology transfer rather than their current roles.

1.5.5. Human resource development

Government should enhance strategic investments across a **wider range of skills** (including both sophisticated and more basic skills, according to different industry needs). The projected strong demand for higher skilled occupations in high-skilled sectors underlines the importance of continuous redevelopment of existing education and vocational training policies, including career orientation and skill upgrading, to cater for the full range of skills needs. In view of better targeting vocational and academic training to the needs of industry, government should also review and strengthen existing mechanisms to encourage businesses to offer training to employees and to play a larger role in co-financing training, perhaps in an industry-specific manner.

The recently undertaken sectoral labour shortage and "skills gap" surveys (which have been validated through consultative workshops beginning in the second half of 2012) are a very useful step towards better aligning career guidance with existing labour demand. To the extent possible, such surveys should be conducted on a regular basis, and accompanied by frequent and systematic studies (such as tracer studies) that investigate the impact of vocational training programmes and human resources policy on: the investment environment; and their effectiveness in creating a workforce that can attract and seize investment opportunities. The statistics and forecasted skills gaps identified in the recent skills surveys could be brought to contribute to the overall investment strategy and inform the choice of sectors of focus for the latter. The forthcoming National Training Strategy should indeed be aligned with master-plans for investment, trade and infrastructure development. Integration of HRD objectives and needs within a national investment and trade strategy should also involve more

structured institutional collaboration between the Human Resource Development Council, the Mauritius Qualifications Authority and investment bodies, such as BOI, relevant Ministries, JEC, and the National Productivity and Competitiveness Council (NPCC).

References

African Development Bank and OECD (2012), *Africa Economic Outlook 2012*.

Bank of Mauritius (2012), *FDI Statistics for Q1-2012*, available at: *https://www.bom.mu/pdf/statistics/Foreign_Direct_Investment/FDIQ12012.pdf*.

Bhuckory, K. (2012), "Mauritius Targets USD 320 Million of Foreign Investment in 2012", 11 July, available at: *www.bloomberg.com/news/2012-07-11/mauritius-targets-320-million-of-foreign-investment-in-2012.html*.

Commonwealth Secretariat (2013), "Formulating an Africa Trade and Investment Strategy for Mauritius", 15 February.

Enterprise Mauritius Newsletter (2013), December, Issue No 27, available at: *http://sourcemauritius.com/newsletters/2013/Issue27Dec13*.

Government of Mauritius (2012), "Budget Speech 2013", 9 November.

International Monetary Fund (2011), *Annual Report on Exchange Arrangements and Exchange Restrictions*.

International Monetary Fund (2013), "Mauritius: 2013 Article IV Consultation", *IMF Country Report*, No. 13/97, April.

Mauritius Chamber of Commerce and Industry (2012), "Memo for the 2013 Budget", Fall 2012, available at: *www.mcci.org/documents/Budget_Memo_2013.pdf*.

Mauritius Board of Investment (2012), *BOI Newsletter*, Issue 40, March.

Prime Minister's Office of Mauritius (2013), "Cabinet Decisions – 8 February 2013".

Republic of Mauritius, Government Programme 2012-15 for Moving the Nation Forward (2012), address by the Acting President of the Republic of Mauritius, 16 April, p. 8.

Republic of Mauritius (2010), "Facing the Eurozone Crisis and Restructuring for Long-Term Resilience", Hon. P. Jugnauth, Vice-Prime Minister and Minister of Finance and Economic Development, August.

Statistics Mauritius (2013), "Agriculture and Fish production, 1st Semester 2013", September, available at: *http://statsmauritius.gov.mu/English/Publications/Pages/Agriculture-and-Fish-production-1st-Semester-2013.aspx*.

Statistics Mauritius (2013), "External trade – 3rd Quarter 2013", available at: *http://statsmauritius.gov.mu/English/StatsbySubj/Pages/trade3qtr13.aspx*.

UNCTAD (2012), *World Investment Report 2012*.

UNDP (2011), "Mauritius Country Report 2011", in: United Nations Development Programme (UNDP), Trade and Human Development Unit, "Trade and Human Development: A Practical Guide to Mainstreaming Trade", July, available at: *www.enhancedif.org/documents/EIF%20toolbox/practical-guide-to-mainstreaming-trade.pdf*.

 OECD INVESTMENT POLICY REVIEWS: MAURITIUS 2014 © OECD 2014

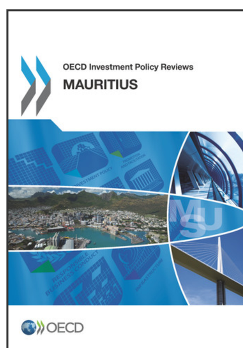
World DataBank (2012), World Bank.

World Economic Forum (2011), "The Global Competitiveness Report 2011-12". Switzerland.

World Economic Forum (2013), "The Global Competitiveness Report 2012-13". Switzerland.

WTO (2013), *WTO Trade Profile for Mauritius*, April, available at: *http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=F&Country=MU*.

WTO (2008), *WTO Trade Policy Review of Mauritius*.



From:
OECD Investment Policy Reviews: Mauritius 2014

Access the complete publication at:
https://doi.org/10.1787/9789264212619-en

Please cite this chapter as:

OECD (2014), "Overview of investment policy context and challenges in Mauritius", in *OECD Investment Policy Reviews: Mauritius 2014*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264212619-7-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.

OECD